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DEPT FOR EUR DICARLO AND EUR/SCE (ENGLISH/FOOKS/RIEHL)
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TAGS: [ECON](#) [ECIN](#) [PREL](#) [BK](#)
SUBJECT: HIGH REP ANNOUNCES MAJOR NEW ECONOMIC INITIATIVE

Classified By: DCM TINA S. KAIDANOW FOR REASON 1.4(B).

1. (C) Summary: High Representative Christian Schwarz-Schilling (CSS) has decided to make small and medium enterprise (SME) development an OHR priority. To this end, he has instructed that an "SME cell", staffed by both local hires and secondees, be established in OHR with the initial goal of strengthening business associations. Reaction among donors, especially to CSS' announced intention to coordinate the international community's (IC) work on SME development, has been less than enthusiastic. Strengthening the voice of business in the policy making process is desirable but unlikely in the short term, a fact cheerfully acknowledged by CSS. This initiative, unlike other ill-considered OHR forays in fiscal and debt policy, will do no harm. However, it does indicate that CSS is in no hurry to focus on the issues needed to close out OHR and transition to a European Union Special Representative (EUSR) and may be settling in for an extended stay as High Rep. End Summary.

The Rollout

2. (C) High Rep Christian Schwarz-Schilling unveiled his ideas for increased OHR engagement in the SME sector at a dinner on May 16 for major bilateral European donors, plus the European Commission (EC) and U.S. The plan, while still vague, appears to consist of several elements. First, the High Rep has directed that an SME unit, with a staff of 4-5 people, be created within OHR. CSS used the dinner to appeal to donors to second staff to the unit to augment the three local hires OHR plans to recruit. The unit's initial work will focus on strengthening business associations, specifically by creating new associations in the metal and construction sectors. The group will also work with a German-funded technical expert to increase the financial viability of business associations through the introduction of quality control standards. A second element of CSS' strategy includes OHR-led coordination of other IC SME activities through regular meetings. Finally, CSS envisions a robust public role for himself to promote SME-friendly reform.

The Back Story

3. (C) Herbert Pribitzer, head of OHR's Economic Section, paid a call on the Embassy on May 16 to preview the High Rep's points for the dinner. Pribitzer confided that internal OHR discussions on the subject have been very

difficult due to the High Rep's statist and interventionist views on the subject. Pribitzer recounted that he had engaged in a major battle with CSS to dissuade the High Rep from reinstating mandatory membership fees in socialist-era chambers of commerce. (Many of these institutions have been languishing since mandatory fees were abolished in response to business demands as part of the "Bulldozer Initiative.") Pribitzer disclosed that he has been instructed to hire three new staff to work on the issue, even as he has been tasked with drafting papers for the theoretical transfer of OHR to an EUSR. He noted OHR has no technical expertise on SME development and that there are already numerous donor-funded projects underway. Donors, Pribitzer contended, rightly saw no reason to cede OHR a larger role in this area. He observed drily that the High Rep is all for local ownership, "except in the area of the economy."

Reaction

14. (C) Donors reacted to the High Rep's proposals with a distinct lack of enthusiasm. A number of donors described their hands-on programs to strengthen the SME sector, pointing out that such efforts take years to come to fruition. CSS breezily agreed, but declared that OHR could at least make a start in the area, prompting a hasty reminder from the EC that European assistance is primarily aimed at EU accession (not SME development). Other donors drew attention to the need for local ownership of such initiatives, an irony, given CSS' mantra-like use of the phrase, that appeared lost on the High Rep. Many representatives stressed the limited utility of "bottom-up" SME strategies without reform of the overall business climate. Donors were particularly keen to head off Schwarz-Schilling's call for monthly SME coordination meetings. CSS' response: To propose meetings every other month.

Comment

15. (C) There is little harm in trying to strengthen business associations. While OHR is not likely to make much headway, a more active business role in policy making can only help BiH. As such, this new focus is far less worrisome than ill-advised OHR forays into debt and fiscal policy. However, the High Rep appears determined to essentially double OHR's current economic staff -- a hiring blitz to take on a new tasks that are far removed from OHR's Mission Implementation Plan (MIP). Rather than pursue the necessary activities for an effective OHR-EUSR transition, the High Rep still appears intent on making his mark in Bosnia, with the attendant implications for keeping OHR robust in size and mandate. End Comment.
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